

E-017/M-95-909

ORDER APPROVING DSM FINANCIAL INCENTIVE

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Joel Jacobs
Tom Burton
Marshall Johnson
Dee Knaak
Don Storm

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of a Request by Otter Tail Power
Company for Approval of its Demand-Side
Management Financial Incentive

ISSUE DATE: November 13, 1995

DOCKET NO. E-017/M-95-909

ORDER APPROVING DSM FINANCIAL
INCENTIVE

PROCEDURAL HISTORY

On August 28, 1995, Otter Tail Power Company (OTP or the Company) filed a request for approval of a demand-side management (DSM) financial incentive mechanism for 1996 and beyond.

On September 29, 1995, the Minnesota Department of Public Service (the Department) filed its comments on the Company's petition.

On November 2, 1995, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

A. OTP's Proposed Incentive Mechanism

OTP's proposed an incentive mechanism consisting of four components:

1. a carrying charge on the Conservation Improvement Program (CIP) Tracker Account using OTP's currently approved rate of return;
2. 100 percent lost margin recovery for lost kilowatt-hour sales of direct-impact projects;
3. a bonus incentive for direct-impact projects based on DSM energy savings; and
4. a bonus incentive based on indirect-impact project performance.

B. The Department's Comments

The Department recommended approval of the proposed incentive with two modifications: 1) a modification to the *structure of the incentive*; and 2) a modification to the proposed *period of the approval* of the incentive.

1. Structure of the Incentive

The Department questioned two aspects of the structure of the Company's incentive proposal: the absence of a penalty clause and the calculation of the bonus for load-management projects. The Department argued that a penalty clause would provide an additional incentive for OTP to achieve at least 50 percent of its goal. In addition, the Department recommended that calculation of the bonus incentive should exclude all expenses other than materials and rebate costs. The Department noted that this approach would be consistent with the calculation approved for Northern States Power Company's (NSP's) Savers' Switch load management project.

2. Period of Approval

The Department recommended that OTP's incentive be extended for 1996 and 1997 and that the Company be required to file a request if it wished to extend its incentive beyond 1997.

C. OTP's Reply Comments

In reply comments, OTP stated that it had no opposition to the addition of a penalty clause in its indirect-impact bonus. The Company also agreed with the Department's recommendation that project costs other than materials and rebates be excluded from bonus calculation for the load-management project.

D. Commission Analysis and Action

The Commission has reviewed the Company's proposal in light of the Department's comments and the Company's subsequent agreed upon modifications. The Commission finds that the financial mechanism is sound and well within the boundaries of incentives previously approved.

At the same time, in April of each year the Company will be providing on-going information regarding the operation of the incentive. Its report will contain information on the calculation of the lost margin and bonus amounts. At any point during its operation, the incentive can be reviewed and modified or discontinued (as appropriate) at the request of the Company, the Department, any other party, or on the Commission's own motion.

In light of these on-going opportunities for monitoring and reviewing the incentive, the Commission does not believe it is necessary to limit approval for this incentive to two years.

Therefore, the Commission will approve OTP's request for a DSM financial incentive, as modified by the Department and clarified by the Company in its October 13, 1995 reply comments. The Commission will not impose a sunset provision regarding the approved incentive. The incentive will remain in effect until further Order of the Commission.

ORDER

1. Otter Tail Power Company's (OTP's or the Company's) DSM financial incentive as modified by the Department and clarified by the Company in its October 13, 1995 reply comments is approved, without a requirement that OTP file a request for extension. The incentive hereby approved shall remain in effect until further Order of the Commission.
2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)

This document can be made available in alternative formats (i.e., large print or audio tape) by calling (612) 297-1200 (TDD/TTY) or 1 (800) 657-3782.